

Message Text

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ACTION NEA-16

INFO OCT-01 ISO-00 AID-20 CIAE-00 EB-11 FRB-03 INR-11

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LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08 CEA-02 L-03

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C O N F I D E N T I A L CASABLANCA 671

DEPT PASS OPIC/I, USAID

E.O. 11652: GDS

TAGS: ENRG, EIND, MO

SUBJ: MOROCCANIZATION: TEXACO/GOM NEGOTIATIONS -1

REF: CASABLANCA 604

1. SUMMARY: SNPP OFFERS 27 PERCENT OF TEXACO'S CLAIMED NET BOOK VALUE TO ACQUIRE 50 PERCENT OWNERSHIP. TEXACO DEEMS OFFER WHOLLY INADEQUATE, AND MAY INSTEAD SEEK TO LIQUIDATE DUE TO LOSING OPERATION AND HEAVY DEBTS. END SUMMARY.

2. ON JULY 25, SOCIETE NATIONALE DES PRODUITS PETROLIERS (SNPP) OFFERED TEXACO DH 800,000 (\$200,000) TO ACQUIRE 50 PERCENT OWNERSHIP IN THE COMPANY. THIS OFFER, IN CONTRAST TO TEXACO'S ASSERTED BOOK VALUE OF DH 5.9 MILLION (\$1.5 MILLION), HOWEVER, IS CONTINGENT UPON TEXACO REINVESTING ITS PROCEEDS OF SALE WITH AN ADDITIONAL INVESTMENT BY SNPP OF DH 800,000 TO INCREASE THE COMPANY'S CAPITALIZATION TO DH 8.7 MILLION (\$2.2 MILLION). BASIS OF CALCULATION FOR SNPP OFFER UNCLEAR BUT CERTAINLY NOT BOOK VALUE.

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SNPP CONTENDS THAT REAL VALUE IS ONLY DH 1.6 MILLION, AS

DERIVED BY DEDUCTING FROM BOOK VALUE QUOTE QUESTIONABLE UNQUOTE ACCOUNTS RECEIVABLE AND EMPLOYMENT, TO QUOTE TEXACO REP, OF "A VAGUE FORMULA" TO FURTHER DISCOUNT TEXACO'S ASSETS IN TERMS OF FUTURE PROFIT PROSPECTS. TEXACO ARGUES THAT ITS LANDHOLDINGS ALONE (ON WHICH STATIONS ARE LOCATED) ARE WORTH ALMOST FOUR TIMES SNPP OFFER. SNPP OFFER APPEARS TO BE, IN FINAL ANALYSIS, BASED ON PAST AND PREDICTED EARNINGS - NOT BOOK OR MARKET VALUE.

3. IN ANY EVENT, TEXACO REP CLARK PRATHER, CONSIDERS SNPP NEGOTIATIONS PRESENTLY ACADEMIC. OVERRIDING PROBLEM IS CAISSE DE COMPENSATION DIRECTIVE TO TEXACO RETROACTIVELY TO REVALUE ITS TWO MONTHS SECURITY STOCKS BY A MULTIPLE OF 3.8 AS OF JANUARY 1, 1974 AND PAY THE DIFFERENCE BETWEEN THE PURCHASE PRICE AND REVALUED COST OF INVENTORY AMOUNTING TO DH 11.8 MILLION. THIS, SAYS PRATHER, IS TO BE PRIOR TO AND INDEPENDENT OF SNPP NEGOTIATION AND WOULD NOT CHANGE SNPP FIGURES AND OFFER. ACCORDNG TO PRATHER, TEXACO'S WORKING CAPITAL RATIO IS DH .93/DH 1 (ITS CURRENT LIABILITY/NET WORTH RATIO IS 4.1/1). IT CANNOT BORROW LOCALLY NOR WILL TEXACO-NEW YORK ADVANCE ANOTHER LOAN BEYOND THE OUTSTANDING LOANS OF DH 17 MILLION TO SATISFY THE DEBT TO C DE C. (EVEN IF TEXACO WERE PERMITTED TO STRETCH OUT THE PAYMENTS, IT WOULD TAKE THREE YEARS TO LIQUIDATE THE C DE C DEBT FROM CASH FLOW.) THUS TEXACO DOES NOT, ALLEGEDLY, HAVE MEANS TO PAY SUCH CLAIM. IF TEXACO CONTINUES TO DELAY PAYMENT, THE POSSIBILITY EXISTS THAT C DE C WILL PROPORTIONALLY DEDUCT TEXACO'S INDEBTEDNESS FROM THE MONTHLY PAYMENTS TEXACO NOW RECEIVES AS A RESULT OF SELLING ITS PRODUCTS FOR LESS THAN THE COST OF REFINED PETROLEUM PURCHASED FROM THE GOM. IN SUCH AN EVENTUALITY, PRATHER SAID TEXACO'S CASH FLOW WOULD ONLY PERMIT THE COMPANY TO CONTINUE OPERATE FOR SIX WEEKS FROM THE DATE C DE C TOOK SUCH ACTION. CONSEQUENTLY, PRATHER IS RECOMMENDING TO NEW YORK THAT A) TEXACO SHOULD PROPOSE ARBITRATION OF THE MOROCCANIZATION SALES PRICE BY AN INTERNATIONAL BODY (WHICH IS CONTRARY TO THE MOROCCANIZATION DAHIR); B) REFUSE SNPP OFFER AND CLOSE DOWN. PRATHER SAYS THAT IF GOM PERMITS RPT PERMITS TEXACO TO LIQUIDATE, THIS IS THE MOST FEASIBLE SOLUTION.

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4. PRATHER CHARACTERIZED MEETING WITH SNPP CHIEF NEGOTIATOR DOUIEB NOT AS A NEGOTIATING SESSION, BUT A QUOTE TAKE IT OR LEAVE IT OFFER UNQUOTE. DOUIEB MENTIONED HIS INTENTION TO MERGE TEXACO AND BRITISH PETROLEUM SINCE BOTH COMPANIES ARE UNECONOMIC. ESSO AND TEXACO REPS' CLAIM SNPP OFFER IS TANTAMOUNT TO NATIONALIZATION/EXPROPRIATION. TEXACO NOT REQUIRED TO RESPOND TO SNPP OFFER UNTIL SEPTEMBER 21.

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